

2022 ASSESSMENT REPORT

BST315116 - BUSINESS STUDIES

Section A

Unit I The Business Environment

There were four questions in Part I to be answered out of a choice of 8, with the questions being scaffolded (e.g. two-item questions).

- Items (a) were out of 4 marks.
- Items (b) were out of 6 marks.
- Two questions out of 10 from the Business Environment topic.
- Two questions out of 10 from the Operations Management topic.

Students who read and understood the question, and who constructed fluent responses including the appropriate course content, achieved a better result. Structuring answers to clearly address all the requirements of each question, and to ensure clarity of meaning was also important. Students should pay careful attention to the need to include suitable examples, as marking schemes are based around the directions given in each question.

Feedback for Criterion I

QUESTION I

This question was answered by 139 students

Not many students gave a definition of a stakeholder which would have helped to strengthen their answers. Most students were able to differentiate between an internal and external stakeholder.

Weaker responses discussed how stakeholders affect the daily running of a business in general, whilst stronger answers were able to further unpack the question and discuss how stakeholders have a direct influence on a manager's decisions e.g., a customer as an external stakeholder might complain about the behaviour of staff leading to the manager deciding to implement a staff training program focused on customer relations.

Most students who understood what the question was asking were able to provide solid examples. Some students mixed up 'stakeholders' and 'shareholders' and were unclear of the difference.

QUESTION 2

Question 2 was answered by 107 students.

Students generally did well on this question. Better answers were able to provide a clear explanation of economic roles and social roles of businesses.

Regarding economic roles, better responses discussed employment and production and their importance. Other good examples were increased tax revenue for the government and the stimulation of the economy through spending.

Regarding social roles, better responses outlined ways in which businesses can have a positive impact within their local community and mentioned supporting local sporting teams and/or community groups and demonstrating corporate social responsibility by engaging in ethical and sustainable practices. Other good points related to employment and production, such as the connection between employment and quality of life, the connection between production and the provision of goods and services, innovation, quality of life and consumer choice.

Weaker responses identified one or more roles without demonstrating an understanding of this role more broadly.

In item (b), stronger responses discussed how specific social responsibilities can help with achieving specific business goals, such as maximising profit, maximising growth, social goals and/or environmental goals.

Weaker answers did not use specific examples of social responsibilities and wrote the response more generally, without identifying specific business goals.

QUESTION 3

Question 3 was another frequently answered question.

In item (a), many students found it difficult to achieve 4 marks when explaining what is meant by an external influence on business. Students are encouraged to use the mark allocation as a guide for how much detail to include.

In item (b), the stronger answers discussed the impact each of the two influences would have on business, with examples. Markers looked for three strong points for each influence, one of which could include an example, or two points discussed well. Students who chose to discuss the economy, could also provide a graph depicting the economic cycle.

Responses needed to focus on external influences as given in the syllabus document e.g. Political, Economic, Social, Technological, Legal and Environmental (PESTLE) and how these influences impact on business:

- political (including government policies and changes to policies)
- economic (including the economic cycle – boom and recession)
- social
- technological (including scientific discoveries/ inventions)
- legal
- environmental

QUESTION 4

Question 4 was answered by 190 students.

Students generally did well in this question.

Weaker responses confused incorporated legal structures with unincorporated legal structures.

Most students could explain the distinction between an incorporated business and an unincorporated business. Better responses provided a definition of incorporation and provided examples of incorporated and unincorporated businesses.

Item (b) was interpreted differently by many students, so there was some flexibility in the marking scheme. Students were asked to discuss the advantages and disadvantages of the incorporated form of structure over unincorporated forms.

Stronger answers explained 2 – 3 advantages and 2 – 3 disadvantages of companies and compared them to unincorporated forms (sole trader and partnership).

Stronger responses explained that companies have limited liability and provided a definition, whilst unincorporated forms have unlimited liability.

Weaker responses listed advantages and disadvantages of each legal structure.

QUESTION 5

Not an overly popular question among students.

- a) It was difficult to grant full marks to this item. Markers were looking for 4 relevant points, but most students found it difficult to go past 2-3. The stronger answers discussed the broader impact on the business of strategic decisions and the link to business goals and objectives.

- b) This item was generally answered well, although a number of students drifted into the use of marketing decisions in place of operational decisions (esp. pricing and advertising decisions).

Stronger responses to the first part of the item focused on the difference between the time scale and breadth of the decision. Strategic decisions relate to longer term, big picture decisions relating to future business operations and directions. Operational decisions focus on how the strategic decisions will be achieved and are medium to short term. Stronger responses detailed that strategic decisions are likely to impact other business functions (human resources, operations, marketing or finance) and are clearly linked to the achievement of business objectives (profit, growth, market share).

There was a broad range of responses to item (ii), depending on the decisions students chose as their example. Better responses clearly identified a specific decision. In relation to operational decisions, responses which referred to an element of the transformation process achieved higher marks. Operational decisions include purchasing, dispatching, inventory control, scheduling, maintenance, quality control and the use of established and leading-edge technology. The operational decisions should relate to the operations function.

QUESTION 6

This question was frequently answered.

- a) In item (a), many students found it difficult to achieve 4 marks when explaining what is meant by competitive advantage. Students are encouraged to use the mark allocation as a guide for how much detail to include.

Most students provided an accurate definition of competitive advantage and cited the two sources of cost leadership and product differentiation and the final link to minimise costs and increase market share.

- b) This was generally answered well with the stronger answers showing how the strategy gives a competitive advantage, and providing examples. Stronger answers stressed the main point that for product differentiation, higher quality/better features -> higher prices, for cost leadership lower cost of production -> lower selling prices (maintaining profit).

QUESTION 7

This was not a popular question among students but was generally answered quite well.

- a) This item was generally easier to award marks with the request for two reasons for adopting LET. Full marks were allocated to those responses that also linked to competitive advantage and ultimate achievement of business goals and objectives.
- b) This item was answered well, although some students misinterpreted the question as asking for why the managers of human resources and finance would have an interest in the decision to adopt some LET specific to their function (e.g. new finance software in FM) rather than LET in operations.

QUESTION 8

259 students completed this question.

This was a more popular question among students with a broader understanding of the role of offshore production.

- a) Although some students discussed outsourcing, many students were able to recognise that offshore production referred to moving components of operations overseas. Full marks were allocated to those responses that provided a definition of offshore production as a form of outsourcing and demonstrated how business decisions could reduce costs as well as improving efficiencies.
- b) This item was answered in depth, with many students recognising a range of social and environmental impacts of offshore production.

Feedback for Criterion 5

Common issues in this section were students providing unstructured responses, with no examples. Where students did not understand the question, their answers were often unclear and muddled, resulting in a lower rating being awarded.

1. Stronger responses clearly explained complex ideas using rich business terminology, in contrast to weaker responses, which used informal terms and where detailed knowledge of the theory was unclear.
2. Stronger responses incorporated more detail, generally 2/3 of a page to a full A4 page of written content – incorporating at least ten facts on the topic (questions were out of 10 marks, so students can expect to incorporate ten facts). Alternatively, five key points, explained well, provided sufficient detail.
3. Stronger responses did not rewrite the question; rather, they started to respond to the question immediately.

4. Stronger responses used bullet points by explaining them fully, as opposed to weaker responses that simply used bullet points, without clearly explaining their relevance.
5. Students should practice writing bullet points that include the main point and then discussion. As a result, a sufficient level of detail will be provided.
6. This could also be said for information provided in a table format. Stronger responses included an explanation of each point.
7. Headings and paragraphs were useful particularly when questions required Two Concepts. e.g.

Concept 1

Start with an explanation of the first concept (this is the What), explain how the concept links to the question (This is the How). Provide an example and link the example to the question (This is the Why/Impact).

Concept 2

Start with an explanation of the second concept (this is the What), explain how the concept links to the question (This is the How). Provide an example and link the example to the question (This is the Why/Impact).

QUESTION 9

Question 9 – Operations Management

- a) Some students assumed that it is a given that the business will adopt JIT and TQM and answered A and B in this manner, rather than discussing a broader range of issues that would arise from the proposed structure. (JIT and TQM as noted in the case are only considerations and not givens in the restructure). Other students failed to note that the question asked about the proposed restructure and not the current structure.

For example, students should focus on the production line process and outsourcing of skill and materials, which impact scheduling and quality standards.

An alternative approach would be to leave JIT and TQM out of the stimulus and include these in the questions as sub questions.

- b) This item was generally well answered.
- c) This item was generally well answered.
- d) This item was generally well answered, with most students identifying the potential savings in storage costs. Fewer students identified the reduction in obsolescence or damage to goods stored long-term and few made the link to cash flow.
- e) Stronger responses identified that TQM makes quality a requirement and an obligation at all stages of the production process, and that this better suits the environment where workers are using a limited skill set on just one aspect of the construction.
- f) Most students were able to identify that comparing results prior to and after could be used to measure the relative success of the JIT and TQM. Stronger responses cited specific KPI's that could be used.
- g) Responses were varied, but as long as students could justify their choice, they answered this question well.

QUESTION 10

Question 10 – Human Resource Management

- a)
- i. The intention of this item was for the student to discuss the aspects of Acquisition that are important in ensuring the staff selected are suited to the position. However, many students chose to discuss how new employees should be supported in their new roles so that they are able to perform effectively i.e. discussion of effective induction, training, mentoring programs, probation periods, etc. Marks were still provided as the question didn't specifically ask to discuss the Acquisition process.
 - ii. Students who were able to distinguish between induction programs and training programs and identify a need of each, received full marks.
 - iii. Students completed this well, with most students identifying implications both in the short-term and long-term. Students who did not differentiate between short- and long-term implications, could not receive full marks.
- b) This item was generally answered well. Students often referred to the impact on current employees as loss of job and on potential employees as either an opportunity for employment or deterrent to apply for a job here in fear that they will be replaced.
- c) Students who correctly identified obligations under the Fair Work Act were given part marks. Stronger responses linked laws to the restructure and received full marks.
- d) This item was completed quite well, with many students being able to identify strategies used in the maintenance phase, particularly outlining the monetary and non-monetary benefits.
- e) Students discussed a good range of measures of effectiveness of the HR acquisition process. Some students referred to KPIs.
- f) Most WHS measures recommended were related back to the stimulus and often referring to the use of PPC.
- g) When answering this item, most students answered the question by discussing the benefits to the local community as a whole and then the benefits to the environment. This was acceptable even though the model answers are structured differently.

Overall, students did a very good job in making recommendations to improve HR performance.

QUESTION 11

Question 11 – Marketing Management

- a) This item demonstrated the importance of reading the stimulus carefully and relating the response to the scenario. Students needed to suggest decisions which were appropriate for the product (small houses) being sold. Some students provided theoretical explanations of strategies, which gained some marks, however the strategies needed to be appropriate for the product.
- i. Students who were able to refer to specific pricing strategies performed well. Marks were still awarded where students discussed pricing methods. There were many students who talked about calculating costs and then determining a price but did not name up cost-based pricing. Other students talked about an increase in costs but failed to recognise that outsourcing was a strategy used to decrease costs of materials/production.
 - ii. Students were often confused between marketing strategies and marketing tools. Students were given full marks if they could identify the promotion strategy that is most likely to increase the volume in sales, explain the strategy, and explain how it will increase sales volume.
 - iii. Place in the distribution channel – despite this item having the words “distribution channel” in it, there were a number of students who chose to talk about the place of manufacture in relation to customers (location). Marks were not given for this answer given how specific the question was.
- b) This item was not well-answered, with many students interpreting “positioning” in the market to mean location. Students struggled to understand “positioning” and thus, did not provide an example of how the product could be positioned and how this would impact sales and advertising of the product.
- c) Many students discussed financial or ethical implications for Haven rather than economic and social impacts on the economy or society in general.

Some stronger answers referred to economic impacts of creating employment for the local community and thus, increasing spending in the community. Some students were confused with what the actual product was and said that the pods would increase tourism to the area – this was fairly common.

- d) Students were able to describe primary market research and provide examples. However, examples didn't always refer to how they would assist Haven to increase sales. The most common method of primary market research was via surveys. Some more creative answers included focus groups who tested the product and provided feedback.

- e) Students were able to describe primary market research and provide examples. However, examples didn't always refer to how they would assist Haven to increase sales. Some students referred to comparing with competitors which at a stretch would be primary research.
- f) Most students were able to provide some basic ways market research could help in product development.
- g) Most students could discuss how Haven could define their target market, referring to market segmentation, but answers were fairly vague.

QUESTION 12

General comments for Question 12 (Thinking Toys):

ITEM A

SWOT analysis was generally done well and was the highest scoring question. Some students had difficulties in understanding the difference between internal and external factors of a business (e.g., identified 'loan being taken out' as a threat rather than a weakness; identified 'recent upsurge in interest in toys' as a strength rather than an opportunity).

ITEM B

- a) Ratios were mostly done very well. It appeared that most students understood this question. ROROE was the most common ratio that was incorrectly calculated. A reminder to students to always show workings (even if the question doesn't specifically ask for that) just in case you make a calculation error.
- b) and c) Trends were not well-answered. Students could identify the reasons for trends but provided very minimal analysis of item B (c).

Most students demonstrated that they understood that the expenses increasing had impacted on the ratios. Some students were not clear enough with their discussion of the specific ratios, but most discussed gross profit and net profit ratio movements. Some further detail of how the different types of expenses i.e. COGS vs other expenses, impacted on the two ratios differently was needed to get full marks.

- d) Loan impact was done quite well and this question was well-understood. Most students understood that the loan impacted on the financial viability of the business going forward, particularly the cash flows. Not many students discussed other considerations around the reason for the loan and how it was spent i.e. on inventory, and the benefits or issues.

ITEM C

- a) Students understood contribution margin quite well, with the majority able to calculate this correctly, although some students didn't realise the variable costs and fixed costs had already been summed for them so there were some calculation errors. Summing this information that was already provided would have also taken up some of the students' available time.
- b) Break-even was done quite well, however some students did not round up or did not indicate units needed to break-even. Most students showed their calculations so it was

easy to work out what had gone wrong if they made a mistake in item (a) and marks could still be allocated for item b)

- c) The amount of profit generated was a question that most students calculated at \$440 (which was not correct). Markers could see how this conclusion was reached and part marks were allocated.

Few students could calculate the profit, based on the number of participants over the breakeven point. Most students calculated it incorrectly using $\text{Sales} - \text{VC} - \text{FC}$ which would be relevant for financial accounting, but not in the context of profit management and break-even analysis.

- d) Similarly, the price charged per unit was often calculated at \$550/person rather than \$255.50/person. More students got the correct answer on this item than the previous item, however the most common answer was \$550/person.
- e) Break-even analysis explanation was mostly done well. Some students were confused about profits and covering costs – they explained a break-even analysis as a tool for calculating profits instead of calculating the number of units to cover costs. Students needed to identify its usefulness in planning and what-if analysis.

ITEM D

Unfortunately, a significantly high number of students did not attempt any or very little of criterion 4 questions (about 50 students).

- a) Generally, well done.
- b) Many students struggled with this item. Some students focussed on what Marg and Cynthia could do as individuals, and others focussed on what Thinking Toys could do as a business. Many students focussed on both the economic downturn and the entry of competition. A large portion of students did not explain how their strategy would provide protection.
- c)
 - i. Despite being a very straight-forward question, many students did not get full marks. Many students did not understand the Cash Budget is a forecast and used incorrect language. A large proportion of students did not identify \$4500 as the opening cash balance (on Jan 1) nor outline why it was expected to reduce to \$-3650 by the end of June. Many students incorrectly talked about the business not generating profits, rather than the business expecting to be in a cash deficit position.
 - ii. Generally quite well done, although very few gained the full 4 marks as they did not identify sensible actions. Many students chose 'factoring' as an action which was not an appropriate option for Thinking Toys, due to the very small accounts receivables.

Many students also chose 'sell off non-current assets' as their action but did not link this with how it would address the cash situation.

- iii. Generally, quite well done.
- d) This was well done if students were able to firstly identify two stakeholders correctly. Too many students used 'shareholders' which was incorrect, given the business is a partnership.
- e)
 - i. This item had a huge range of answers, with many of them incorrect due to students misinterpreting the question. Many students did not understand that Marg and Cynthia are the owners of Thinking Toys and answered it from the perspective of them being outside of the business.
 - ii. If attempted, this item was generally done well. Students are reminded that following the Australian Consumer laws is a legal requirement, not an ethical decision.
- f) A straight-forward item that was very well done.

QUESTION 13

General comments for Question 13 (Thinking Toys):

ITEM A

This item attracted many strong answers. Weaker answers consisted of two or less words which did not demonstrate a sound understanding of the connection between theory and the case study provided.

ITEM B

- a) This item again attracted many strong answers. Students need to pay close attention to rounding their values correctly and complete their answer with the units being measured (% and days).
- b) Students would benefit in closely reading the language in the question. Students would have benefited if they stated the ratio demonstrated an overall down trend in profits. Many students provided the two ratios and stated that the business was higher than industry average, forgetting to mention the trend which was specifically requested in the question.
- c) This item appeared to challenge students with its similarity to the previous item. This item received mixed answers where students could identify the change in ratios, but provided little more evidence to support their claims which could be found in the financial statements and could have strengthened their answers to demonstrate understanding.

- d) Many students were able to identify the purchase of a motor vehicle as the major asset purchased, whereas many students were able to correctly identify the purchase value; however, stronger answers were also able to identify the loan, its interest expense and were able to conclude the loan was nearing completion.

ITEM C

- a) Mathematic calculations were strong for this question; however, some students could have benefited from ensuring they rounded up to 17 participants and concluded this to be the number of participants required, not leaving the answer as 16.66.
- b) This item again demonstrated the mathematical skills of students, where many answers were calculated to an exact answer without inferring the more efficient answer of 5 participants \times \$350 = \$1750. Both answers were however accepted as correct.
- c) This item challenged students greatly with few coming to the correct answer; however, there were multiple stages to this item for which students received marks. For example, where students correctly identified the written formula, where students used the correct financial figures to enter into their formula, followed by the correct algebraic steps. Students would benefit from practicing how to manipulate fractions/algebra in preparation for a question like this in future.
- d) In answering this item, some students identified breakeven analysis as being useful in marketing of seminars; however, many failed to link this to the minimum participant numbers required, instead focussing their answer on vague answers around who to market the seminars to. Students would benefit from remaining focussed on the financial value in understanding breakeven to support a stronger argument.

ITEM D

a) and b) Generally, well done

c)

- i. This was answered strongly by many students. Students who struggled with the question generally failed to support their identified causes with evidence from the financial statements, or selected a very broad expenses type and were not able to provide strong strategies to correct the trend.
- ii. This item required students to identify that using cash to acquire another higher income generating asset would benefit the business. Students provided a broad range of ideas, where stronger answers identified that earning interest was low risk and didn't pay well, and higher returns could be achieved in purchasing an asset that would generate more income in the business.

- d)
- i. This was answered strongly by students. Stronger answers firstly provided an explanation of what the DCP was and identified that efficient and effective managers have a lower DCP. It required students to explain in general terms what they know about DCP, not reference the case study. Students could benefit from reading all sub-items in each item before writing answers. Unfortunately, some students used information pertaining to the case study which did not attract marks that would have been better used in the following item.
 - ii. This item required students to demonstrate their understanding of DCP in relation to the case study. Stronger students were able to include information from their prior calculations without making general statements about DCP and were able to make conclusions about the efficiency of management within the business.
- e) This item attracted strong answers from students.
- f) Many students opted to answer the environmental option which was answered strongly.
- For students who opted to answer the economic option, stronger answers could have linked the savings made by business to investment in new technologies, employing more staff etc. where the wider community benefit, not where savings can be made by an individual business.

Suggested Answers – Section A

Unit I The Business Environment

QUESTION 1

- a) Distinguish between an internal stakeholder and an external stakeholder of a business.
- b) Using **two (2)** examples, one (1) internal and (1) external, explain how the views of stakeholders may influence managers' decisions.

(4 + 6 marks = 10 marks)

- a) A stakeholder is any group or individual who has an interest in, or is affected by, the activities of a business.

Internal stakeholder is anyone with a direct connection to the business and is inside/ works for/ is paid by the business e.g. owners/shareholders, managers, employees

An external stakeholder has an interest in the business and the performance but is outside of the business e.g. the customers, society/general public, environment.

- b) A manager will understand which stakeholders are affected by any particular decision they have to make and be influenced by their views.

Internal examples such as:

- employees demanding a safer workplace will influence a manager to implement new work practices or provide new safety equipment.
- owners wanting to maximise retained earnings in the business for future developments may influence the manager to make decisions to delay expenditure in the present.

External examples such as:

- customers requesting new products will influence a manager to explore designing and manufacturing new products to satisfy the wants of customers.
- customer complaints about staff service may lead the manager to implement a new staff training program.
- a potential lender may have an interest in financial security and the manager may need to make decisions which maximise the holding of low-risk assets, rather than higher earning but also higher risk assets.
- society expecting businesses to be good corporate citizens, giving back to society and showing concern for the environment. This may encourage managers to focus more on sustainable practices and/or community projects and activities.

QUESTION 2

- a) Explain the economic roles and social roles of business.
- b) Why does meeting social responsibilities assist with achieving business goals?
(4 + 6 marks = 10 marks)

Businesses perform numerous functions and have an important role to play both socially and economically within society.

Economic roles of business such as:

- Providing employment: keeps the economy healthy, allowing consumers to use the income they have earned to purchase goods and services which supports businesses and suppliers and opens up more opportunities for job creation.
- Leads to more disposable income for employees which is then reinvested in the economy when goods or services are purchased.
- Production of goods and services to satisfy needs and wants.
- Reliance on investment into the product development.
- Contribution to Australia's GDP (Gross Domestic Product).
- Contribution to innovation, which enables businesses to design new products that improve society's quality of life.
- Provides a choice of goods and services which encourages spending.
- Drives innovation.
- Taxes for the Government.

Social roles of business such as:

- Employment is imperative in providing financial security and happiness and healthy communities, which have reduced occurrences of crime and drug use.
- Employment provides an income which allows consumers to afford products that they need and want which can benefit their standard of living.
- Innovation leading to products that improve quality of life.
- Provision of essential goods and services.
- Corporate social responsibility (CSR) seeking to engage with the community/ society and have a positive impact.

Example roles of business

FIGURE 1.6 The role of business



Business Studies in Action Preliminary Course 6th Edition, Chapman, Gallina, Devenish Sixth Edition 2021 – page 9

a) Meeting social responsibilities such as:

- Supporting local organisations through donations and sponsorships can increase awareness of the business, leading to increased sales.
- Employing locals can help the business to achieve social goals of provision of employment.
- Use of sustainable practices can help to achieve business goals of sustainable development.
- Overall, business reputation will improve which could lead to goals of profitability and growth being achieved.

Students should mention various business goals, such as maximizing profit, maximising growth, social goals of community service and provision of employment, environment goals of sustainable development and personal goals.

QUESTION 3

- a) Explain what is meant by an “external influence” on a business.
- b) Choose two (2) external influences and briefly explain their impact upon a business.
(4 + 6 marks = 10 marks)

- a) External influences are those that are from outside of the business which the business has no control over.

Name some external influences such as political, economic, social, technological and/ or economic (PESTLE).

In contrast to internal influences such as business culture and management influences which a business does have control over.

- b) Chose 2 influences from PESTLE and give a brief explanation of their impact.

Political – stronger answers discussed government attitudes and policy making (fiscal policy, taxation policy, income tax, GST) rather than focussing on laws, which related more to the legal influence. COVID regulations, implemented by the government, were often used as an example here.

Environment – stronger answers focussed on external environmental factors such as climate, climate change, natural disasters such as tropical cyclones and floods and the increased cost for business and price for consumers which could affect revenue and profitability.

Social or Sociocultural – relates to influences arising from the nature of society and culture. The business operates within society which provides both customers and employees and will both reflect social norms and culture and react to changes in them to remain relevant and competitive.

Social influences such as changes in tastes, fashions and culture can impact a business significantly in terms of their sales and profits. Failure to respond to these social changes can threaten the business stability and viability.

Examples of social influences can include:

- Changing work patterns e.g., greater flexibility in the workplace, casualisation of labour.
- Growing awareness of the environment.
- Family friendly workplaces.
- Increased workplace diversity.
- Career flexibility and job mobility.
- Increased participation rates for women.
- Consumer trends e.g., veganism, changes in fashions, healthy eating.
- The increased participation of women in the workforce has contributed to more flexible and family friendly workplaces. Also, many employers have the view that employees will be more productive if they have a good work/life balance, happy workplaces with perks and greater flexibility in the workplace. Can impact employees, managers, owners – happy workers with work/life balance can improve their productivity and have a more profitable outcome for businesses.

Technological – relates to the impact of the development and use of machinery, specific technologies (for example nuclear energy) and most relevant today e.g., digital technologies. Examples could relate to business use of, and reaction to social media and online trading, robotics, and alternative power generation and storage. New and emerging technologies - managers need to decide whether to introduce new technologies and weigh up the financial cost of implementation and the overall competitive advantage that may be gained. Employees will need to be retrained or may be made redundant. Owners may receive increased profits/shareholders receive a greater dividend.

Legal – relates to the impact of laws and government regulations upon business. A very broad spectrum of examples included employment law, corporation law, environmental laws, consumer protection laws, council regulations, state tax laws and the impact of businesses needing to adapt to new laws. These could include both staff training, new safety equipment, new production methods etc, all of which can be timely and expensive to implement.

Economic – stronger answers discussed the impact of various stages in the economic cycle – Recovery, Peak, Trough, Recession – and their impact on interest rates, level of inflation, level of unemployment, economic growth, expectations of future economic conditions, position in business cycle (level of aggregate demand), consumer confidence of spending and how these affect overall business profitability. Some students drew and labelled a diagram and referred to this in their discussion.

QUESTION 4

- a) What distinguishes an incorporated business from an unincorporated business?
- b) Discuss the advantages and disadvantages of the incorporated form of structure over unincorporated forms.

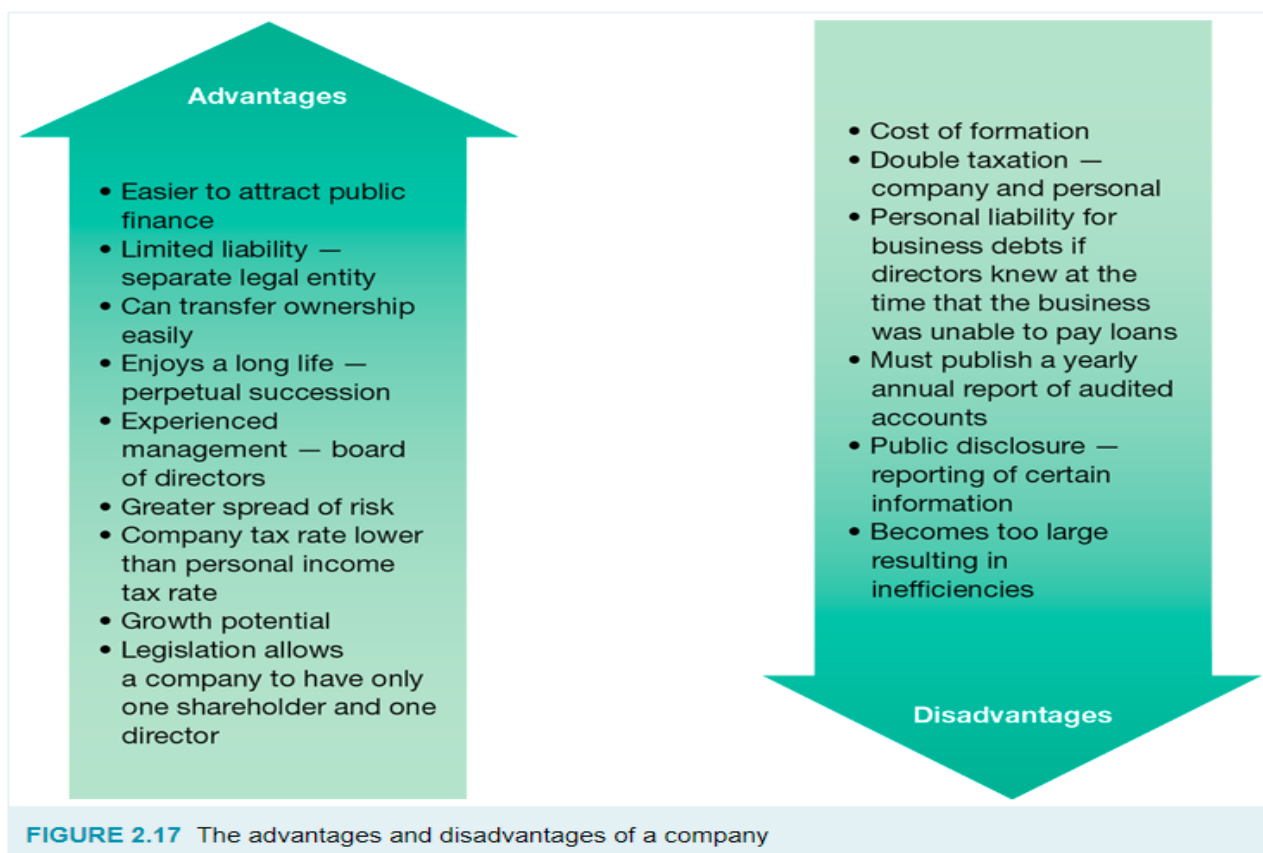
(4 + 6 = 10 marks)

- a) An incorporated business has gone through the process to become a separate legal entity from the owner(s). This means the business exists in its own right as its own legal entity. Regardless of what happens to individual owners (shareholders) of the company, the business continues to operate. Incorporated businesses include private and public companies.

An unincorporated business has no separate legal existence from its owner(s) and will be either a sole trader or a partnership. This means the business entity and owner(s) are one and the same. When the owner dies, so too does the business entity.

- b) Stronger answers discussed the advantages and disadvantages compared to an unincorporated legal structure such as a sole trader and/or partnership.

Example



Business Studies in Action Preliminary Course 6th Edition, Chapman, Gallina, Devenish Sixth Edition 2021 – page 49

e.g., An advantage of a public or private company is limited liability. Each owner's financial liability is limited to the amount of money that he or she has paid for the business's shares. In contrast, unincorporated legal structures have unlimited liability. The business owner is personally responsible for all the business's debt.

e.g., A disadvantage of an incorporated legal structure is that it can become too large, resulting in less control and inefficiencies. In contrast, a sole trader has complete control over decisions.

QUESTION 5

- a) Distinguish between operational decisions and strategic decisions.
- b) Using examples, describe two (2) operational decisions and two (2) strategic decisions required of business management.

(4 + 6 = 10 marks)

- a) Strategic refers to long-term, broad aims affecting all key business areas. Longer term 'big picture' decisions relating to future business operations and directions. They will be specific and measurable (could use SMART acronym here). They will relate to future success. For example, which markets to target, whether to engage with product development, the place of the business in the industry.

Operational decisions include: Purchasing, dispatching, inventory control, scheduling, maintenance, quality control and the use of established and leading-edge technology. They should relate to the operations function.

Operational decisions	Strategic decisions
<ul style="list-style-type: none"> Decisions around short-term goals & objectives, often taken repetitively Relate to the execution of specific daily tasks or weekly projects / processes Do not require a high level of business judgement / evaluation Usually specific to one area of the business Must reflect operations strategy to achieve corporate objectives 	<ul style="list-style-type: none"> Decisions around longer-term goals & objectives Relate to the 'big picture', strategic direction of the business Require a high level of business judgement / evaluation May impact the whole business Influenced by & implemented through operations management <u>BUT</u> may be difficult to translate into operational management

- b) An example of an operational decision may include:
- Purchasing – buying ready-made goods for sale or ingredients / raw materials / parts to transform into products

An operations manager will need to decide on who and where they will source their products from. Sourcing higher quality inputs from suppliers could lead to a higher quality output. Buying in bulk reduces costs / bulk buy inputs / generates economies of scale. Kmart, Target and Big W bulk buy inputs.

Examples of **strategic decisions** may include:

- Outsourcing - The decision to outsource various business functions onshore or offshore in order to reduce costs and increase efficiency by hiring another individual or company to perform tasks that were previously done by employees within the business.
- Diversification of production range e.g. a farm diversifying their production, in order to maximise growth and profitability.

QUESTION 6

- a) Explain the meaning of competitive advantage.
- b) Describe one (1) strategy a business may use to achieve a competitive advantage.
(4 + 6 = 10 marks)
- a) Competitive advantage refers to having an 'edge' over competitors. This could be achieved through cost leadership and product differentiation. Minimising operational costs and the passing on of lower prices can help a business to achieve a competitive advantage. Differentiating products from competitors can result in increased profitability which can help a business to have a competitive advantage. A business could use the increased profits to maximise growth.
- b) The strategy needed to relate to ways a business can minimise costs and/or increase profits. A range of answers were accepted.

Stronger answers provided clear definitions of cost leadership or product differentiation. Cost leadership definitions should focus on the goal to reduce costs involved in production of a product so that they are then able to set their prices competitively. The focus should be about cost rather than price.

Cost leadership involves aiming to have the lowest costs or to be the most price-competitive in the market. A key aspect to cost leadership is that although trading with the lowest cost, the overall business should still be profitable. This means that operations managers must find ways to minimise costs. (Chapman, 2018)

In relation to **cost leadership** students who discussed costs saving strategies such as economies of scale, relocation of production, total quality management, employing technologies and inventory controls gained higher marks.

Product differentiation is the conscious activity by a business to make its product appear different from otherwise similar or identical products of its competitors. How businesses differentiate may include packaging, logo, trademark, branding. Some expansion of how these elements work to differentiate the product is expected.

Offering a unique product which attracts a broader consumer base. Which in turn, will result in an increase in market share and profitability enabling businesses to gain a competitive advantage.

Stronger answers detailed the many ways a **product can be differentiated** from those of competitors (branding, packaging and function/attributes) and its connection to customer loyalty. Connections to perceived quality and the possibility of charging higher prices was also rewarded but only when described correctly.

For Product differentiation many students answered the question well using the following as means of achieving a competitive advantage:

Goods:

- varying the actual product features
- varying product quality
- varying any augmented features

Services:

- varying the amount of time spent on the service
- varying the level of expertise brought to a service
- varying the qualifications and experience of the service provider
- varying the quality of materials/technology

QUESTION 7

- a) Provide two (2) reasons why the operations manager would adopt leading-edge technology.
- b) Explain why the human resource manager and the finance manager would also have an interest in the decision to adopt leading-edge technology.

(4 + 6 = 10 marks)

- a) Leading-edge technology is the most advanced or innovative at that point of time.

Reasons for adopting leading-edge technology:

- Increased the level of production more quickly and with less waste.
- Operational efficiencies.
- Competitive edge due to product diversification.
- Less waste in mode of production.
- Driving change in business, reflect market needs and values.

b) **Human Resource Manager:**

- Efficiencies due to reduced staffing needs.
- Provide an incentive for existing employees to upskill and work with new equipment.
- Potential to improve safety and wellbeing of existing employees.
- Potential deskilling when technology replaces human activity.

Finance Manager:

- Reduction in labour costs (including wages, superannuation, overtime, sick leave).
- The cost to purchase and implement new technology outweigh savings.
- Recognised leading edge technology as an investment.

QUESTION 8

- a) Why might a business choose to move some aspects of their operations offshore?
- b) Discuss why this decision may have both social and environmental consequences.

(4 + 6 = 10 marks)

a) **Reasons** for offshore operations:

- Focussed on efficiencies and cost-saving in the mode of production.
- Reduced costs due to labour laws & regulations, exchange and interest rates.
- Higher quality of manufacturing due to specialised skills and expertise.
- Employees not available locally to keep up with the rate of business growth.

b) **Social** consequences:

- Increase in employment and standard of living in manufacturing country.
- Increased unemployment (including suppliers) & deskilling of labourers in original production country.
- Disruption & marginalisation of indigenous cultures.
- Unethically produced goods impact customer support and brand loyalty.

Environmental consequences:

- Increased carbon footprint.
- Use of chemicals in production & impact on air/water quality.
- Impact of mode of production on water catchments & energy supplies.
- Additional packaging & emissions due to excess transportation.
- Varying environmental laws offshore.

Many answers included inaccurate assumptions about the manufacturing industry.

- China does not only make cheap products that harm the environment; biodegradable and recyclable products are also made in manufacturing hubs such as Philippines and Taiwan.
- Not all countries overseas use child labour and exploit their workers.
- Offshore production does not necessarily mean a reduction in quality; variation in quality depend on materials and choice of offshore provider.
- Raw materials are often imported into major manufacturing hubs; access to raw materials may not be a driver for offshore production.
- Referring to overseas production as the “third world”; terminology such as developing, low or middle-income countries is more appropriate.

Section B

QUESTION 9 - (HAVEN ON EARTH)

- a) What issues arise for Haven from the proposed restructure in relation to:

Scheduling

Scheduling is the process of ensuring that all resources required to produce are in place where and when needed for efficient production. Scheduling refers to the time taken for activities of transformation and the associated planning of the activity.

Incorrect organisation of work tasks:

- Order of tasks.
- Timing of tasks – made more difficult due to outsourcing.
- Rostering of staff to complete tasks – due to the removal of skilled tradespeople.
- By moving to a production line process the need for having all resources available when needed is heightened as the whole production line will stop if there is a holdup at any stage. This has implications for human resources as well as physical resources.

Example answer:

Scheduling refers to the time taken from activities of transformation and the associated planning of these activities. Issues that Haven could encounter post restructure center around the organisation of work tasks including: order of tasks, timing of tasks, roster of staff to complete tasks. With the removal of skilled tradespeople timing and rostering are likely to be more complex to manage.

Inventory control

The control of inventory is particularly important in the new system. Because there has to be a flow of work, and there are multiple pods being produced at one time, inventory needs to be maintained at a level to allow it all to keep operating.

The current situation suffers from the problem of potentially holding excess stock of raw materials as the materials are purchased in bulk to take advantage of lower cost but carries the risk of superseded product and storage costs.

Just-in-time inventory management aims to have the business make only enough products to meet demand.

Just-in-time (or JIT) is an inventory management method in which you keep as little inventory on hand as possible. That means you don't stockpile products and raw materials just in case you need them – you simply reorder products to replace those you've already sold.

The goal of a JIT system is to receive new products just as they're needed – any sooner and you'll have excess inventory levels, and you'll encounter stockouts if shipments come too late. When implemented correctly, a JIT inventory system can help retailers and lean manufacturing businesses reduce their storage costs and keep their inventory fresh.

Of course, JIT inventory systems fall apart without prompt, reliable item production and shipping. But once you get it down, JIT systems can enhance the efficiency and profitability of your business.

Issues associated with inventory include:

- Maintaining adequate levels of inventory.
- As they are not manufacturing to order, they are able to plan inventory to their own schedule of production.
- Risk of superseded product.
- Cost of storing the inventory.

Example answer:

Maintaining adequate levels of items Haven needs to produce the pods will become more complex post restructure as they will no longer be making a single pod to order (and therefore need more building supplied on site). There is a risk of increased water, the need to hold more building products (implications for security from theft and safety of products from damage in storage).

Quality control

Quality control currently involves a final check at the end of construction of each pod, primarily to test whether the pod meets environmental standards.

The problem with this approach under the new process is that each stage of construction is undertaken by a different team (outsourced) so there is no continuous oversight of quality, and problems could arise in early production stages but not be picked up until completion.

On a production line, management needs to be aware of quality issues as they arise, otherwise the problem may be passed on through the stages without detection. Quality control may increase as each worker becomes an expert in their stage of the production process.

Total Quality Management means that everyone is responsible at every stage for quality of the product.

Example answer:

Quality control may become easier to manage post restructure as the production line approach would allow for standards to be checked during construction rather than just at the end as in the current process. The lack of skilled workers could be problematic but only if they are not trained or supported to do their role in the transformation process adequately.

- b) Discuss the issues associated with outsourcing from the point of view of the:

Operations manager

- Communication becomes an issue and Haven must ensure that there are clear lines of communication between their management and that of the business to which tasks have been outsourced or contracted.
- Co-ordination is a related issue. Product being produced outside Haven, or tasks contracted out by Haven, need to be available when required otherwise the whole production line may be halted.
- Logistics are important; there must be reliable transport if product is involved.
- Haven will also meet difficulties in assessing the standard of work completed by the outside entity' they will be unable to maintain direct control of the outsourced product.

Employees

**** this answer must link to existing employees*

Some employees will lose their jobs with Haven, probably with no replacement job available at the business taking over the work.

If outsourcing becomes a continuous strategy, then Haven employees will become insecure and may seek alternative employment before they 'lose their job'. It will have an adverse effect on morale.

Alternatively, successful outsourcing may lead to a more successful business, and in fact support those employees remaining with Haven.

Existing employees with worry about long-term prospects in the business.

Fear of unemployment.

The impact that repetitive tasks will have on the employee – reducing skill set, limiting opportunities, boredom.

Example answer:

Existing employees will be unsettled to see a change to their workplace. There will likely be angst from the electrical and plumbing tradespeople who are losing their jobs to outside providers (outsourcing). The construction team that are made redundant may also be upset but there could be positives for any that remain as they could move into supervisory rolls to assist quality control/management.

- c) Identify one (1) ethical consideration Haven should take into account when assessing the success of the proposed restructure.

Ethics relate to what is morally right or wrong. There is room for questioning right or wrong in:

- Selection or identification of employees to be retrenched.
- The decision itself as to whether to outsource.
- The decision to employ contract labour rather than employ directly, particularly in a situation where contract labour is cheaper, or less attractive an employment option for workers.
- Mental health issues.
- Reputation of the company e.g. if they promote as having good CSR and the business they outsource to do not, this could impact reputation.
- New restructure could conflict with social goals of the business.

A large ethical consideration relates to the outsourcing of staff and components. As well as the HR implications regarding staff there also may be questions/concerns/distaste surrounding the use of components from outsider the company (assuming cheaper, non-local providers). Such actions do not support the local economy, and in turn the people in it. There may also be/should be considerations of perceived or actual quality, how/the process of manufacture (possible poor conditions).

Criterion 4 - Recommendations

d) Explain how Just-In-Time (JIT) processing would assist Haven in their proposed restructure.

(Answers will be accepted where students talk about JIT processing with regards to making pods to order and when referring to JIT inventory management, which are two separate things. As the question specifically asked for how JIT will assist, full marks cannot be achieved if students discuss only disadvantages.)

Just in time inventory involves the receipt of all inputs to the production process as they are required to be used. It requires sophisticated scheduling and reliable logistics. JIT inventory would overcome the problem Haven has with large quantities of inventory to store and maintain.

Just-in-time inventory management would assist Haven in their restructure by

- Keeping stock levels low and thereby not having as many issues with storage, safety of goods (theft and damage).
- Helping to manage cash flow as the outlay on stock purchasing is spread more evenly over the year and in line with order income.

Explain how Total Quality Management (TQM) would assist Haven in their proposed restructure.

TQM would assist as it should avoid the issue of finding a quality issue at the end of the production process, possibly requiring extensive restoration. Quality becomes a requirement and an obligation at all stages of the production process, and better suits the environment where workers are using a limited skill set on just one aspect of the construction. If there is a responsibility to maintain quality.

Total Quality Management would assist Haven in their restructure by:

- Establishing and supporting a positive (and thus productive) workplace culture (empowering employees).
- Being aware of industry standards and expectations and thus being able to align with them (benchmarking).
- Ensuring the business operations are customer-focused and are operating with continuous improvement in mind.

e) Assuming Haven proceeds with the restructure, how could they measure the success of implementing Just-In-Time (JIT) and Total Quality Management (TQM)?

Identification of KPIs could be mentioned here, and examples relating to JIT and TQM which make sense.

For example:

(JIT) number of times inputs inventory not available when required in a period; levels of input inventory held; cost of stock losses per period....

- Reduces wastage.
- Less investment.
- Reduces need for storage.
- Less risk of damage to inventory while in storage.
- Reduces operational costs.
- Increased efficiency and productivity.
- Improves quality.

(TQM) number of quality issues per period; number of warranty claims from final purchasers; satisfaction survey of purchasers...

- Strengthened competitive position.
- Adaptability to changing or emerging market conditions and to environmental and other government regulations.
- Higher productivity.
- Enhanced market image.
- Elimination of defects and waste.
- Reduced costs and better cost management.
- Higher profitability.
- Improved customer focus and satisfaction.
- Increased customer loyalty and retention.
- Increased job security.
- Improved employee morale.
- Improved and innovative processes.

Haven can measure the success of JIT and TQM implementation through:

- Monitoring and measurement of waste.
- Error/failure rates (not meeting the environmental standards).
- Production time monitoring.
- Staff retention/productivity.
- Customer satisfaction/complaints.
- Order rates.
- Stakeholder views/perspectives.
- Against KPI's or other benchmarks.

- f) In your opinion, should Haven proceed with the restructure. Why or why not?

Either yes or no with reasonable defense of choice. Students need to justify their choice. Ideally answers refer to Operations Management, however, broader concepts can be discussed where relevant and with justification.

Example answer 1: Haven should not proceed with the restructure. The proposed changes are too great and inconsistent with the company size and objectives. They should embrace some changes that the restructure suggests (moving to a more production-line style) but doing this in consultation with existing staff. Change can be made over time and this is more likely to be successful and fit with a TQM approach (best practice).

Example answer 2: Haven should progress with the restructure. Implementing technology will make the production process more efficient and productive. Using JIT inventory methods will reduce inventory costs allowing for a competitive advantage in cost leadership. Finally, using total quality management, costs will be reduced along with the time associated with quality management and will in turn increase customer sales. When products are consistently fit of purpose, they meet the needs of customers and maintain customer loyalty.

QUESTION 10

- a) The decision by Haven to restructure its production process has implications for the human resource manager in the areas of:
- acquisition of new staff
 - induction, training and development
 - managing redundancies.

- i. *How does the HR Manager ensure that new employees are suited to the positions to which they are appointed?*

- a) Defining need for extra employee(s).
b) Job description and job specification:

There is a need to develop a job description (which details the exact tasks to be done and where it fits in the authority structure of the business) and a job specification (which details the training, skills and qualities of a successful applicant). Often combined into one document. Should be a formal document.

Process needs to focus on job description and specification in order that employees are suitable for the position.

- c) How and where will new staff be sought? Will Haven advertise and recruit themselves or contract a recruitment agency to carry out the function. The expertise of an agency may be well worth the cost.

The conditions of employment will be important to holding employees and need to be known at time of appointment. Is there an award to be aware of?

d) Interview and selection process needs design. Use of referees.

Example answer: Haven can make sure employees are suited to positions by focusing on the acquisition stage of the employment cycle. Specifically, this means they should:

- Clearly identify the role, describe responsibilities and skills required.
- Identify/consider the future of the position.
- Compare to industry standards re conditions including salary.
- Detail personal attributes to fit with culture.

Another student example:

They know by creating a job using the following acquisition process:

- Job Analysis: figuring out what role is needed in the workplace. Analyzing the environment, understanding what roles are not being completed that need fulfilling.
- Job Design: Designing the job. Detailing responsibilities, hours of work, how it would be managed, pay, benefits, figuring out the how and what.
- Job Description: formalising the job, writing out a description with all information included. Advertising to find the right employee.
- Job Specification: determining what qualification or training will be needed for the job.

If the business follows this cycle, they will know they have the right employee for the job. “Do they meet these?”

ii. *Distinguish between an induction program and a training program. Briefly identify the need for each.*

An **induction** program is designed to introduce the new employee to the organization- how things are done and how interactions occur. **Induction training is a one-off.** It is concerned, in addition to practical requirements such as knowing where facilities are, and roles and duties of other staff, with introducing the new employee to the culture of the business. How things are expected to be done, and how interrelationships are carried out.

An induction program at Haven is needed to:

- take care of administrative processes required to get the employee on your payroll system
- outline the business’s values, direction and expectations

- clarify the duties and work requirements of the new role
- introduce the new employee to your team
- take the new employee through essential workplace health and safety training to ensure they can safely perform their duties in the workplace
- ensure the new employee knows how to operate the technology or machinery required in your business.

Induction programs are specifically for new staff. They should impart all necessary workplace rules, regulations etc. but also assist the new staff members to navigate the workplace, meet colleagues, become immersed in the business culture. They are critical for legal reasons and help with staff retention and positive culture.

The **training** program is the on-going process of teaching the employee the skills and knowledge required for them to carry out the duties of their position they are trained to do on the job.

Training programs ensure staff are able to do their specific job safely and accurately. They build skill-sets (can be in response to new technology or change in processes) and assist employee development. Aids positive culture, retention, productivity, output (linking to profit).

Training should be on-going.

There would be specific skills that new employees would need to learn in the production process at Haven.

(Students should make the distinction between the Induction program being a 'one-off' and training programs are 'on-going'.)

- iii. Explain the potential short-term and long-term implications on **workplace culture** resulting from the decision to make some staff redundant.

Workplace culture relates to the values, beliefs, traditions and behaviours which define the nature and character of the workplace. In both the long and short term, employee redundancies carry important implications for workplace culture.

In the **short term** the identification of those to be made redundant, the mode of advising them of their redundancy and the support mechanisms and actions put in place to mitigate their losses will both reflect and support the workplace culture.

The decision to restructure/make staff redundant will make the workplace unsettled. Staff are likely to be upset, angry, scared, anxious etc. Management will need to support people (offer transition programs, assistance) and be mindful and accepting of the period of change (accept potential decrease in productivity and loss of moral).

In the **longer term** the reputation of the organization both internally and externally may in part be impacted by how well redundancies have been dealt with over time; how necessary they have proved to be and the performance outcomes as a result.

If not managed appropriately the restructure may lead to decreased staff moral which would impact workplace culture. Fear, anxiety, angst, bitterness, uncertainty could carry over from the change period. If managed and successful in the long-term there could be benefits from re-energised staffing, improved company success (which could be shared with staff).

The introduction of new staff may bring long-term benefits of increased skill and morale in the workplace.

b) Outline the impact of redundancies caused by the restructure of the operations process on:

i. **Current employees:** insecurity for existing as they see positions 'disappear'. Concern for own position and perhaps look for alternative employment. Workplace culture adversely affected. May be positive if retrenched are treated well.

Current employees may experience:

- Uncertainty, anxiety, fear about potential or actual loss of job, change to job duties/processes (de-skilling).
- Financial stress which would flow on to their families and local community.
- Anger towards management.
- Loss of productivity/motivation to attend work or to work to full potential – under performance.

ii. **Potential employees.** Lack of trust in the business to provide long-term stable jobs. May be that, if the reason for redundancies is a restructure, the business becomes stronger and more successful and is seen as a better proposition for employment than before. Workplace culture will be important in this regard.

Potential employees could be excited about the potential work available (opportunities). Some potential employees may have heard about the restructure and poor treatment of staff and thus not be attracted to the employer (and not willing to work for them).

Potential employees may be more wary.

New employment opportunities for less skilled workers.

c) The Fair Work Act 2009 applies to Haven. Advise Haven of two (2) obligations under the Act that they need to consider in light of the proposed restructure.

This question provides an opportunity for a very wide choice of answers, for example they could relate to the National Employment Standards, the rights of employees upon acquisition, the rights and obligations upon redundancy....

Whether an answer given is valid or not will be determined by whether it is presenting an obligation under the Act and whether or not it refers to the stimulus.

Example answer:

Two obligations under the Act are:

Grounds for redundancy: Haven must ensure that they meet the 'Fair Reasons' for redundancy and select staff in accordance with the requirements also.

Entitlements: Haven must ensure they fulfil the terms of the employment contract (Award and Enterprise Agreement) regarding severance pay, notice period and eligibility.

Criterion 4 – Make recommendations

- d) Briefly outline two (2) elements of the maintenance phase of the employment cycle that will assist Haven to maintain their workforce.

Select two elements from maintenance phase

- on-going training and development
- rewards – monetary and non-monetary benefits
- performance appraisal

Example answer:

In the maintenance phase Haven should:

1. Ensure the provision of both monetary and non-monetary benefits are provided in accordance with the law BUT also in line with industry, competitors so staff do not leave.
2. Manage performance of staff to support their work/job satisfaction and gain feedback to assist management.

- e) Recommend two (2) ways that Haven can assess the effectiveness of their human resource acquisition process.

Effectiveness measures include:

- Length of service; how long do employees tend to stay.
- Exit interview to establish reasons for resignation.
- Performance management processes.
- Complaints box.
- "Time to fill".

- Employer of choice.

Example answer:

Haven can measure effectiveness of acquisition processes through:

1. Reviewing the number of applications and comparing/considering this with employment information/conditions.
 2. Considering staff retention. How long staff stay with Haven? May also interview or do staff surveys about the process.
- f) Haven is conscious of their workplace being potentially hazardous. Explain their obligations regarding workplace health and safety (WHS) and describe one (1) particular WHS measure they should take.

Could make mention of WHS legislation applying to all businesses.

The general obligation (primary duty) is to ensure the health and safety of workers while they are at work in the business and that of others who may be affected by that work.

Business Managers have a duty of care to ensure WHS laws are complied with and have a proactive role in achieving such compliance.

There are many suitable examples of WHS measures that may be employed, for example:

- Carry out formal risk assessments.
- Identify WHS key performance indicators.
- Appoint WHS officer.
- Provide WHS based training.
- Know about and adhere to codes of practice if they exist.
- Incident notification policy and process.

Under WHS laws (which are similar all over Australia but individual to each state) Haven must:

- Provide a safe environment – space, equipment must all be ‘fit for purpose’, free of faults and not compromise safety.
 - Implement safety policies and committee/contact - staff should be able to access information and be able to discuss or report issues to a specified person (WHS rep).
- g) How will the proposed restructure contribute to the local community and the environment?

The following outcomes from the restructure that may impact community and environment are:

Increased level of production

Community

More income produced and into community

Overall increased employment opportunity

Environment

Increased number of environmentally sound living spaces

Increased efficiency of production

Community

Increased business viability

Environment

Decrease in resources expended per unit produced

Redundancies of four tradespeople and employment of additional lesser skilled workers

Community

Initial community unease at loss of skilled trades jobs

Longer term if successful then positive towards employment opportunities in a profitable business

Potential to outsource some components

Alternate way of answering, addressing contributions to the economy and the environment:

Local Economy:

Increased employment opportunities.

Additional income will boost the local economy and improve liveability in the community.

Raises standard of living.

Greater Consumer Choice.

Environment:

Less waste due to the TQM commitment.

Use of sustainable eco-friendly building materials and architectural design in comparison to other structures.

Student example:

The proposed restructure main goal is to increase profits (through being able to fill more orders). This will contribute to the local community by increasing economic activity through provision of employment, wages, more profits, etc. and their flow on affects. The production line approach is more resource efficient which not only aids increasing profits (through increased production output and decreasing productive costs) it is also likely to involve less waste, less use of non-renewable energy (petrol, oil via transport) and overall delivers more environmentally friendly buildings to the world which means less non-environmentally friendly.

QUESTION 11

- a) The proposed restructure requires a marketing strategy to increase the volume of sales. Identify one (1) decision related to that strategy for each of the following, and explain how it will impact this sales objective:

A number of alternative decisions are identifiable for each of price, promotion and place. The following are examples only.

i. pricing decision

Need to choose overall pricing strategy - cost plus; premium; competition based; what the market will bear; follow a price leader?

Strategies:

- price skimming
- penetration pricing
- loss leader pricing
- price points

Methods:

- break-even analysis or cost-volume-profit [CPV]
- cost-based
- market-based
- competition-based

Identify pricing strategy that is most likely to increase the volume in sales, explain strategy, explain how it will increase sales volume. This question is not about increasing profit or revenue.

The higher the price the lower the volume of sales is likely to be. Premium pricing itself is not likely to increase sales volume.

ii. promotion decision

Promotional strategies could include: advertising, online, personal selling, sales promotions, direct marketing, public relations

Identify the promotion strategy that is most likely to increase the volume in sales, explain strategy, explain how it will increase sales volume.

Billboards, television commercials, etc. are examples of advertising. Students cannot get full marks for naming up TikTok without referring to it as an example of on-line promotion.

Example:

The best place to advertise the product may be determined by the nature of the target market. In this case the product may be advertised in publications read by environmentalists or perhaps higher quality house and garden magazines. Volume of sales should be positively affected if the target market is better reached.

When promoting their 'pods' Haven needs to consider the mix of/or which element will aid achievement of their goals. Advertising, personal-selling, relationship marketing, sales promotion, as well as publicity and public relations are all options and e-marketing can have a role in each of these. When selecting the appropriate 'elements/tools' Haven needs to be true and honest to their brand so to successfully achieve their goal of increasing sales.

iii. **Place**

How Haven moves the product to the consumer is a key decision for their marketing strategy. A decision they need to make is whether or not they need to have a retail presence or whether they will rely more on online (perhaps with a series of display pods). This choice is the decision between traditional v. non-traditional distribution channels.

Haven will need to decide whether they manufacture and sell the Pods directly to the final customer, or whether they leave the retailing side to other businesses, and concentrate on the manufacturing. Also they may decide whether to use a network of wholesalers to form the connection with retailers.

If they market direct to the final customer then Haven will need to establish retail outlets. It could be that online selling provides an answer, whereby marketing of the product and sales are primarily made through an internet presence.

We would be looking at either distributing directly to the customer or through retailer. No impact through wholesaler. Wholesaler not suitable due to the size of the product and storage is a problem.

Identify the distribution strategy that is most likely to increase the volume in sales, explain strategy, explain how it will increase sales volume.

b) Explain how the positioning of Haven in the market will influence:

Positioning is not covered by the course in the context in which it has been used. There will be a variety of answers. Branding is something that students will be more familiar with.

Positioning may focus on:

- Eco-friendly market/environmentally sustainable products.
- Premium quality product.
- Niche market – people need a space to place the pods.
- Temporary accommodation.

Example 1

Positioning in the market is critical to Haven's success. They are currently focusing on their environmental sustainability and low-cost features. These influence:

Sales – larger market for lower cost options in micro homes. Sustainability elements also highly desired (and regulated), which increases sales.

Advertising – the channels to advertise needs to be consistent and suitable for the positions. The right placement and tools will increase sales.

Example 2

Positioning relates to the relative quality of the product. How does Haven wish customers to view the product? - as a premium one, with high quality and strong support, or as a budget product, which is adequately built but not of the same high quality of finish and content.

The volume of sales

Haven would expect a high-quality product will have a lower sales volume due to its higher price, than a budget model, which can be priced lower and will be more attractive to buyers with lower budgets.

ii. Advertising of the product

The nature of the advertising will also reflect the quality of product. Premium product will be marketed through advertising where potential buyers of the product are likely to see the advertisement e.g. quality publications.

c) Identify the economic and social impacts of Haven meeting environmental standards.

Economically speaking Haven's Pods represent an efficient use of resources, and minimizes the requirement to allocate resources in the future, as they are built to support the environment.

- Supports other ecofriendly businesses.
- Paves the way for other businesses – role model.
- Creating employment for unskilled workers.
- Creating unemployment for the workers are being made redundant.

From **society's** point of view the Pods will support the increasingly accepted view that action must be taken to mitigate CO₂ and other emissions, which in part the Pods do.

- Customer values are aligned with the business values.
- Consumers make a guilt-free purchase.
- Companies developing products unsustainably are encouraged to adopt new practices.
- pods provide benefits to owners
- needs for/to conserve and protect. This shares/supports this agenda now and into the future

Criterion 4

- d) Define primary market research. Recommend two (2) methods of primary research that would assist Haven in increasing their sales.

Primary market research - obtaining marketing information directly from the potential consumer of the product; that is from the target market (examples-telephone enquiry/survey, post sales questionnaire; follow up interview of purchasers).

- Primary market research is research conducted for the first time, is directly from 'a' source for the use of 'the' source. That is a company needing the information collects it themselves (or via a third party given the task) for their specific purposes. Questionnaires, interviews, surveys are all methods to collect primary data. Haven could conduct online surveys and interviews of previous customers and use this information to inform the marketing strategy. Information gained would aid product decisions (attributes) but also provide information that would inform pricing and promotional decisions.

- e) Define secondary market research. Recommend two (2) methods of secondary research that would assist Haven in increasing their sales.

Secondary research is data already collected by other sources/parties. It includes government data, reports, other organisations' information, statistics etc.

To increase sales Haven should look for any industry data regarding sales (and/or construction) of tiny houses, articles re this style of building, and what pricing. If they believe their target market is (partially) identifiable by demographics they should/could also look at government census data to identify locations where the most potential clients reside.

- f) How would market research assist Haven with designing and refining the product element of the marketing mix.

Market research would obtain info about what potential buyers would like to see in the **product** they buy. This includes all aspects – financing structures, packaging, delivery, finishes.

Market research will enable Haven to create ‘pods’ that are more likely to be successful in the market. Through research Haven can identify the product attributes most valuable/attractive and also which attributes are not valued and could be removed to maintain affordability/desired price point. Market research of post/existing customers can also aid in identifying areas needing refinement/improvement.

- g) How could market research assist Haven in defining their target market(s)?

Example 1:

Market research will assist Haven by finding out who is most likely to purchase their product.

Example 2:

Market research will aid Haven in their assessment of how their product fits into the market (positioning) and where it will likely achieve the greatest success. Through research Haven can **identify the size of the total market** and the **‘homogenous’ groups of customers (age, gender, needs, wants, lifestyle etc.)** within this market helping them to identify which of these groups are the most attractive to them (their target market/s). Research will also reveal competitors and enable Haven to **develop a marketing strategy** that will effectively communicate with the target market (so they do not go elsewhere).

Section C

QUESTION 12

Thinking Toys

Students needed to provide more than just a word or two in order to receive the full 1 mark allocation for each item.

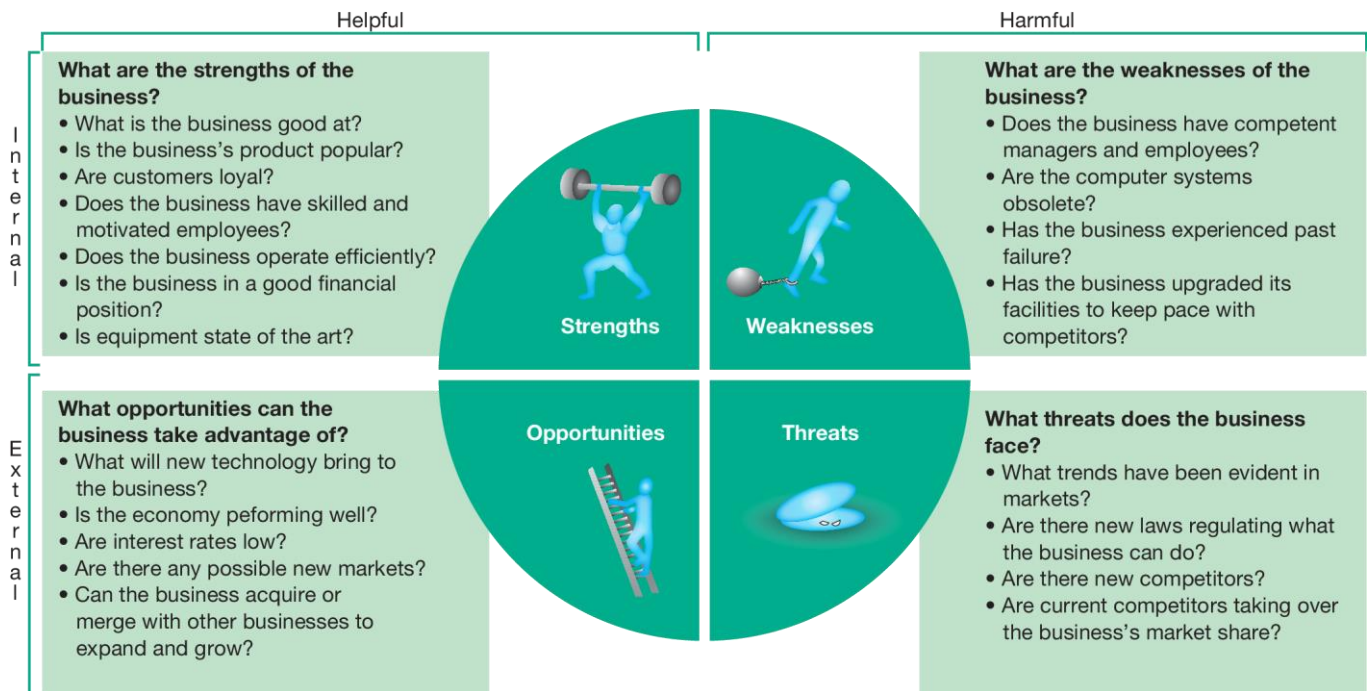
1 mark for each of two strengths, 1 mark for each of two weaknesses, 1 mark for each of two opportunities, 1 mark for each of two threats = 8 marks.

Part marks allocated when brief responses provided.

- **Strengths** are things that TT is currently doing that are in their control (internal environment) and are good.

- **Weaknesses** are things that TT is not currently doing/doing but shouldn't be, but these things are in their control (external environment).
- **Opportunities** are things outside of TT (external environment) that they could take advantage of in the future
- **Threats** are those things outside of TT (external environment) that might adversely affect them in the future – they need to be prepared for them.

The following graphic from the Jacaranda textbook 'Business Studies in Action' may be useful:



Business Studies in Action Preliminary Course 6th Edition, Chapman, Gallina, Devenish Sixth Edition 2021

Strengths	Weaknesses
<ul style="list-style-type: none"> • Premium product made in Europe with the perception of quality • Improving trend in sales revenues over the 3 years • High quality construction of toys • Product fosters thinking and intellectual activity • Solid product positioning may allow TT to charge more • Upgraded shelving allows increased inventory capacity • A partnership makes decision-making easy • Small business structure is easy to manage and agile to change • Niche market due to premium product 	<ul style="list-style-type: none"> • Decreased/decreasing profitability • Product is too specialised / narrow product range • Restricted market size due to premium nature of product • Narrow target market due to product nature/price • Business resources are limited so expansion is difficult • No online presence currently • Reliant on importing from another country limits flexibility in ordering due to supply chain issues • Loan cost (interest) is very high and eating into profits and they are now less financially secure • Family breakdown (mum and daughter) • Partnership structure could mean arguments and hard to arrive at a consensus

<p>For 0.5 marks only</p> <p>STRENGTHS</p> <ul style="list-style-type: none"> • business sells intellectual toys 	<ul style="list-style-type: none"> • Unlimited liability due to business structure <p>For 0.5 marks only</p> <p>WEAKNESSES</p> <ul style="list-style-type: none"> • pricing on toys • restricted market • importing from another country
<p>Opportunities</p> <ul style="list-style-type: none"> • Increased interest in educational toys • Increased financial resources of customers • Implementing toy making workshops • Offering workshops to supplement revenues/increase profits • Continued recent upsurge in interest in toys of this nature causing increased interest in TT's products • Online presence will increase interest in business and raise sales revenues • Tap into digital tech which is revolutionising the nature of toys • Offering toy making workshops could expand business and tap into a new market <p>For 0.5 marks only</p> <ul style="list-style-type: none"> • Digital technology • Online presence • Workshops • Technological advancements 	<p>Threats</p> <ul style="list-style-type: none"> • Limited market size • New entrants taking market share • Competition from large department stores entering market • Increased cost of borrowing due to interest rates rising • Competition from department stores • Economic decline could lead to less people wanting a premium product and decreased sales • COVID-19 issues stopping supply into Australia/ TT business location • COVID-19 issues causing lockdowns • Changing consumer attitudes means consumers not interested in the proposed workshop • Changing consumer attitudes means consumers not interested in toys <p>For 0.5 marks only</p> <ul style="list-style-type: none"> • Economic decline • COVID 19 • Competitors • Failed workshop

Item B a)

	2020	2021	2022
	Students didn't need to calculate		
Gross profit $\text{GPR} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$	76.14 %	$\text{GPR} = \frac{220\,000}{292\,000} \times 100$ 75.34 %	$\text{GPR} = \frac{227\,000}{306\,000} \times 100$ 74.18 %
Net profit $\text{NPR} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$	33.12 %	$\text{NPR} = \frac{88\,350}{292\,000} \times 100$ 30.26 %	$\text{NPR} = \frac{67\,900}{306\,000} \times 100$ 22.19 %
Rate of return $\text{RROE} = \frac{\text{Net Profit}}{\text{Average Owners Equity}} \times 100$ Markers also accepted Rate of Return using total equity formula $\text{RROE} = \frac{\text{Net Profit}}{\text{Total Owners Equity}} \times 100$	89.39 %	$\text{RROE} = \frac{88\,350}{116\,925} \times 100$ 75.56 % $\text{RROE} = \frac{88\,350}{121\,050} \times 100$ = 72.99%	$\text{RROE} = \frac{67\,900}{115\,550} \times 100$ 58.76 % $\text{RROE} = \frac{67\,900}{110\,050} \times 100$ = 61.70%

Item B b)

GPR is falling slightly but basically level.

Net profit ratio a clear decreasing and deteriorating trend (from 33.12% to 22.19%)

Rate of Return on OE a clear decreasing and deteriorating trend (from 89.39% to 58.76%)

Compared to Industry Average, TT's GP ratio is much stronger,

Compared to Industry Average, TT's NP is much weaker.

Compared to Industry Average, TT's RROE is much stronger.

Item B c)

Gross profit margin has fallen over the three years indicating that the margin between sales and cost of sales is reducing- either inventory costs have increased relative to the price of the product or price received for the product has declined relative to inventory costs- or some combination.

Compared to IA, TT is showing better COGS control.

Net profit margin has significantly decreased over the 3 years. As there has been a very modest decline in the gross margin this outcome is caused by an increase in expenses relative to sales revenue. That increase is evident principally in higher administrative expenses over the 3 years (particularly due to the admin staff wages) and financial expenses in 2022 (due to the interest from the loan).

Compared to IA, TT has lower profitability.

RROE has significantly decreased and deteriorated in 2022 compared to 2020 figures. That said, drawings are still being made at a steady rate over the 3 years.

Compared to IA, TT has a better return on their investment, despite the decreasing Net Profits.

Item B d)

Impact of the loan taken out on projected cash situation:

Loan has led to big interest expense which is cutting into profitability

The loan is not really being used to generate more revenues as stockpiling inventory doesn't seem to be working for them at the moment. Particularly if much of their stock is moving toward a digital tech, is shelving even needed for that?

Increase in inventory in 2022 and shop fittings (shelving) totals about 22 000, so 8000 of loan not spent on those assets.

Repayments at 3,100 per 2 months. Which if not made would have left cash budget with positive value at end of June 2023.

Item C a)

Variable costs		Fixed costs	
Timber	45	Power tools	920
Paint	15	Clamps	300
Glue	6	Rent	400
Fasteners	6	Insurance	250
Morning tea	12	Administration	250
Lunch	28		
Afternoon tea	10		
	\$122		\$2 120

Contribution margin is
Selling Price minus
Variable Costs
\$250-\$122 =
\$128

Item C b)

$$\text{Break Even} = \frac{\text{Fixed Costs}}{\text{Selling Price} - \text{Variable Costs}}$$
$$= \frac{2\,120}{128}$$

=16.56

Therefore, break-even occurs at 17 participants / units

Item C c)

If 17 is the break-even number of participants and 20 attend then profit must be 3×250 which is \$750.

Note: because break-even is at 16.56, profit will be marginally above \$750 but actual calculation not necessary.

Based on an answer of \$440 profit from the calculation from part b), marks were allocated to answers of \$2560 or \$2758.

1 out of 2 marks was given to the following calculation $P = (SP \times \text{Units Sold}) - (VC \times \text{Units Sold}) - FC$

$$= (250 \times 20) - (122 \times 20) - 2120$$

$$= \$440 \text{ profit}$$

Item C d)

$$20 = \frac{FC + \text{Profit/Return}}{SP - VC}$$

$$20 = \frac{2120 + 550}{SP - 122}$$

$$20(SP - 122) = 2120 + 550$$

$$20 SP - 2440 = 2670$$

$$20 SP = 5110$$

$$\text{Selling Price} = 255.50$$

Therefore, must charge \$255.50

Item C e)

Usefulness in determining whether sufficient market size exists.

Good for what if type calculations varying prices and costs.

CRITERION 4

Item D a)

Depends on weakness chosen. Weakness needed to appear in the SWOT (refer back to student's SWOT at beginning of Answer Booklet)

Example:

Weakness: having a restricted market size/being in a small niche market.

Has led to: less sales and/or difficulty in expanding the market to generate more sales.

Action to improve: to expand product mix to offer toys that cater to older/younger children or toys that do not necessarily stimulate intellectual activity.

How action would improve TT's situation: bring in more customers due to the expanded target market which will increase sales revenues and potential profits if costs associated with the expanded target market are carefully managed.

OTHER ACTIONS:

- Source cheaper suppliers in order to decrease COGS and improve GP margins.
- Take on a new partner / become incorporated to access additional equity finance to solidify financial position without going into debt to external providers.
- Investigate ways to reduce total expenses without affecting sales quality/service.
- Create an online presence that can access an expanded target market nationally and internationally.

Item D b)

Economic downturn / new entrant into market

Marg and Cynthia need to be able to cope with falling revenues in both of these situations. To deal with this, it would mean paying off liabilities (accounts payables and loan) in order to remove the pressure of financial obligations owed to external parties. Reducing their planned drawings to keep more money in the business would also help with this. Reducing the amount of stockpiled inventory would also assist.

Example I:

Strategy: Sell off stockpiled inventory and don't buy more than is needed in the upcoming months. Use the cash that is generated to pay off accounts payables and the loan to reduce exposure to external financial obligations in an economic downturn.

How this provides protection: Economic downturn reduces people's capacity to spend, particularly on non-essential items and therefore TT's sales may decrease. They do not want money tied up in unwanted inventory.

Example 2:

Strategy: Use product differentiation (like a bigger product range, offering workshops and augmented features of toy range) to stand out from any new entrants to the market.

How this provides protection: This will attract more customers to TT and keep them coming back because they offer products/services that competitors do not.

Item D c) i.

The cash outcome as predicted by the cash budget at end of June 2023 is a deficit of \$3 650, due to outflows being higher than inflows.

For the full 2 marks, answers needed to identify the predicted cash was decreasing each month due to high outflows compared to inflows. Must describe the amount of cash is deteriorating over the 6-month period. Mention of the key items regarding why this is predicted to occur was also part of a stronger answer e.g. consistently high drawings by owner/s, increased payments for stock and the wages and the loan repayments.

Some identification of an understanding of what a negative cash position means was also required. That is, a cash deficit and/or an overdraft position.

Item D c) ii.

The question asked for two actions to be explained. 2 marks per action for a total of 4 marks.

The actions needed to relate to THIS cash situation (the one that was outlined from item c) i. – that is, the cash deficit that is predicted for end of June.

A variety of responses possible but borrow or reduce outflows most likely. For example:

- A loan could be arranged to cover the predicted short fall as at June 30 2023. Most suitable would be a bank overdraft.
- Reduce drawings in each period of budget. Would need only to be a reduction in each period of \$1 202.

Too many students incorrectly said an action was to sell off Current Assets to generate profits. This did not show any understanding between cash and profits. Cash Budget is about expected cash movements in and out in the future. Cash is a Current Assets and it can't be sold.

Item D c) iii.

If possible, for Marg, a reduction in drawings is preferable as it doesn't mean money is taken away from necessary expenditures to keep the business operating. Taking on more/ new debt is not fixing the cash problem in the longer term as it will need to be repaid in the next periods.

Item D d)

The focus of this question was on the consequences on the stakeholder, rather than TT's responsibility to the stakeholder. Many students did not address this correctly.

Syllabus outlines stakeholders as: shareholders; managers; employees; consumers' community and society; and the environment.

It is generally accepted in the business world that SUPPLIERS are also stakeholders, as well as CREDITORS/LENDERS.

If cash shortfall continues, then business won't be able to meet debts as they fall due leading to business failure. Adverse effects upon a number of stakeholders- employee (loss of job); suppliers (inability to meet debt); customers (loss of desired service).

Owners	Cash deficit can't be on-going. If it continues, they may need to close. They will still have the amount owing to the bank and will be personally liable for that due to unlimited liability.
Customers	Parents who want toys now can't buy from TT if the business shuts down due to inability to continue operations. Given parents are shoppers of premium products, if TT shuts down, they will be without an option to purchase this type of product.
Employees	Will be out of work / given no more hours if they can't be paid due to the cash flow issues and they will need to start looking for new work. They may struggle to meet their own bills if they don't have an income. They will have job insecurity.
Suppliers	They will be without a client to sell product to, if TT closes its doors. This might put them in financial difficulty, if they relied on TT's custom.

Item D e)

i.

In the short-term, Marg may gain a profit windfall as the gross margin is greater for the low-quality product, if no other changes in expenses. They may see an increase in product returns if the product breaks quickly.

However, in the longer term the business may suffer. Quality issues will become obvious and product returns will increase. The business will lose reputation as a quality retailer and suffer loss of custom accordingly. Broken toys lead to higher complaints, customer dissatisfaction and bad reviews, leading to decreased sales and subsequent profits.

ii.

Potential legal issues arise from breach of the various consumer protection laws both state and commonwealth. Overall principle is that the business will not engage in deceptive or misleading conduct. May also fall foul of more particular provisions such as misrepresenting the performance characteristics of the product through misleading or false advertising. The ACCC will protect customers. Customers might file a lawsuit if injury to child from broken toys occurs.

Ethical issues arise with the deliberate misrepresentation of quality and willingness to profit from the mistruth. This is taking advantage of customers in an unfair manner. Lying to loyal customers will mean loss of customers. Choosing profits over people will damage their reputation and ultimately decreasing sales and profits.

Cheaper labour might be found in countries with little to no regulation on work conditions – is it ethical to use this? Will customers backlash once they find out? If cheap inputs are used, it may be bad on the environment due to increased waste.

Item D f)

Any reasonable response. An explanation was needed for the full 2 marks. Must tie answer to increase sales or increased potential profits. Wider market reach; online ordering of product.

It would help attract more customers from a wider target market including nationally and internationally. This will increase sales, decrease advertising costs and lead to potential increase in profits which will allow for reinvestment into the business and growth. Online presence will definitely raise the business's visibility.

Data can be collected on customers and their interests which may improve communications and allow more targeted marketing. This may decrease amount spent on marketing expenses and allow the money to be spent more effectively.

Question 13

Front Up

Students needed to provide more than just a word or two in order to receive the full 1 mark allocation for each item.

1 mark for each of two strengths, 1 mark for each of two weaknesses, 1 mark for each of two opportunities, 1 mark for each of two threats = 8 marks.

Part marks allocated when brief responses provided.

<p>Strengths</p> <ul style="list-style-type: none"> • High expertise • Product is popular, product has high demand. • Private company (incorporation – separate legal entity) • Private company legal structure provides limited liability • Front Up product is unique (product differentiation) • Face to face customer service in their product offering • Owner (Graeme) has an understanding of the need for positive impressions. • Consultancy and training programs are heavily subscribed 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Reliance on Graeme for operations • Reliance on presenters for quality • Declining profit • Graeme is the sole shareholder • All sales are considered credit sales...could be an issue if customers don't pay on time.
<p>Opportunities</p> <ul style="list-style-type: none"> • Digital technology • Share ownership- new shareholders • Increasing awareness in the business community of the value of first impressions • Support of other businesses • Development of new training programs • Development of new topics of consultancy • Increase in home-based (remote) learning environments <p>For 0.5 marks only</p>	<p>Threats</p> <ul style="list-style-type: none"> • Economic downturn/decline could lead to businesses cutting costs • Increased cost of borrowing due to interest rate rises • Stricter lending policies from financial institutions that could limit access to debt finance • Competition from large providers • COVID-19 issues causing lockdowns • Changing attitudes means that other business owners may not be interested in Front Ups product <p>For 0.5 marks only</p>

<ul style="list-style-type: none"> • Digital technology • Share ownership • Remote work • Technological advancements 	<ul style="list-style-type: none"> • Economic decline • COVID 19 • Competitors
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Item B a)

	2020	2021	2022
Net profit ratio $\text{NPR} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$	64.23%	$\begin{aligned} \text{NPR} &= \frac{96\,600}{160\,000} \times 100 \\ &= 60.38\% \end{aligned}$	$\begin{aligned} \text{NPR} &= \frac{95\,390}{173\,000} \times 100 \\ &= 55.14\% \end{aligned}$
RROE $= \frac{\text{Net Profit}}{\text{Average Owners Equity}} \times 100$ Markers also accepted: RROE $= \frac{\text{Net Profit}}{\text{Total Owners Equity}} \times 100$	407%	$\begin{aligned} \text{RROE} &= \frac{96\,600}{60\,140} \times 100 \\ &= 160.63\% \end{aligned}$ $\begin{aligned} \text{RROE} &= \frac{96\,600}{78\,440} \times 100 \\ &= 123.15\% \end{aligned}$	$\begin{aligned} \text{RROE} &= \frac{95\,390}{81\,135} \times 100 \\ &= 117.57\% \end{aligned}$ $\begin{aligned} \text{RROE} &= \frac{95\,390}{83\,830} \times 100 \\ &= 113.79\% \end{aligned}$

Debtors' collection period	39.42 days	DCP $= \frac{17\,000}{160\,000} \times 365$	DCP $= \frac{18\,800}{173\,000} \times 365$
Two ways accepted.		= 38.78 days	= 39.66 days
1. If they average the accounts receivable out.			
DCP $= \frac{\text{Average A Receivable}}{\text{Net Credit Sales}} \times 365$			
2. If they don't average the accounts receivable out.		DCP $= \frac{17\,800}{160\,000} \times 365$	DCP $= \frac{19\,800}{173\,000} \times 365$
		= 40.61 days	= 41.77 days

Item B b)

The overall trend for profit is a decline. The net profit ratio decreases from 64.23% to 55.14%

Item B c)

The trend indicates that either revenues are falling, or expenses increasing or some combination of both these forces. Note that it is approaching the industry standard but still above. On inspection of the Income Statements, it is clear that the proportionate increase in expenses is greater than the proportionate increase in revenue, (percentage change formula) hence the 'worsening' of profitability.

The rate of return on owners' equity is also declining, but this is expected given the increase in owners' equity from the commencement of business.

Students could refer to specific increases in expenses shown on the income statement with data.

Stronger answers would use data to support their discussion.

e.g. Increase in presenter fees paid from \$18600 in 2020 to \$27400 in 2022.

e.g. Rent increased from \$12 400 in 2020 to \$16 800 in 2022.

Item B d)

There has been a motor vehicle purchased in 2021 increasing the balance sheet value of motor vehicles to \$52 000.

Graeme has reduced his business loan by 8 000 in 2021 and a further 20 000 in 2022. This indicates that he is repaying the principal sum borrowed (30 000) in addition to interest on the loan.

Item C a)

Variable costs		Fixed costs	
Catering	40	Equipment levy	1 800
Document production	46	Rent	400
Badges	16	Assistant wage	200
Pens and stationery	8	Presenter wages	600
		Return to business	1 000
	110		4 000

$$\begin{aligned} \text{Break Even} &= \frac{\text{Fixed Costs}}{\text{Price} - \text{Variable Costs}} \\ &= \frac{4\,000}{350 - 110} \end{aligned}$$

=16.66

Therefore, break-even occurs at 17 participants.

Item C b)

If 17 is the break-even number of participants and 22 attend then profit must be 5×350 which is \$1750.

Note: because break-even is at 16.56 profit will be marginally above \$1750 but actual calculation not necessary.

Item C c)

iii.

$$\text{Break Even} = \frac{\text{Fixed Costs}}{\text{Price} - \text{Variable Costs}}$$

$$20 = \frac{FC + \text{Return}}{P - VC}$$

$$20 = \frac{4\,000}{365 - VC}$$

$$20(365 - VC) = 4\,000$$

$$7\,300 - 20VC = 4,000$$

$$-20VC = -3\,300$$

$$VC = \$165$$

The value of variable costs was \$110, so the workbook (which is a variable cost) needs to be charged at \$55 for each participant.

Item C d)

Usefulness in determining whether sufficient market size exists.

Good for 'what-if' type calculations varying prices and costs.

Identifies viability from desired return point of view.

Breakeven analysis is a very useful tool for management in making decisions about matters such as:

- the number of units that must be sold to cover fixed costs.
- the number of units that must be sold to cover total costs (i.e. to break-even).
- the number of units that must be sold to make a certain level of profit.
- the selling price required to break-even.
- the selling price required to make a certain level of profit.

- how the break-even point is affected by changes in costs, volume or selling price.
- how profit is affected by changes in costs, volume or selling price.

Item D a)

Example:

Depends on strength identified.

Students should name the strength they are referring to and provide a descriptive strategy on how the business can take advantage of the strength.

Example 1:

Strength: owners have a high level of expertise.

Has led to: a popular product that is in high demand.

Action to improve: this can be promoted on social media platforms such as Facebook. Owners can make short videos which inform the public about their product.

How action would improve Front-Up's situation: bring in more customers which will increase sales revenues and potential profits if costs associated are carefully managed.

Item D b)

Students should clearly identify the threat they are referring to and develop a descriptive strategy to overcome the threat.

Example 2:

Threat: interest rate rises

Has led to: an increased cost of borrowing for the business

Action to improve: reduce their level of debt by using retained profits to pay off loans or invite more shareholders to increase the equity.

How action would improve Front-Up's situation: business can use equity finance instead of debt finance.

Item D c)

i. Identify cause as increase in expense items, particularly presenter fees and rent of premises. Accept strategies to counter e.g. find cheaper premises to rent.

ii. Graeme is holding substantial funds in his bank account as evidenced in the balance sheet and will have a reasonably large cash balance into the future if his cash budget comes to fruition. He is earning bank interest only which is relatively low as risk is not great. He

could use the cash to purchase financial products which increase the return he makes from his cash. He may also use the cash to purchase assets which improve his product and hence revenues and profits. In both cases he is exchanging the asset cash for another asset which improves his return from the business.

Item D d)

- i. The debtor's collection period is the number of days that it takes for the business to receive payment of an account receivable from the time the debt is incurred (that is, the credit sale is made). It is in Graeme's best interest to receive payments as promptly as possible, and to minimize outstanding debts. Efficient and effective managers will have processes in place to ensure accounts receivable are received on time.
- ii. Graeme's debtors' collection period is not improving having gone from 39.42 days in 2020 to 39.66 in 2022.

Further he is performing significantly worse than the industry standard. Thus, one can conclude that Graeme is a relatively inefficient manager when it comes to debt recovery. (Efficiency has decreased)

Item D e)

If their efficiency decreases e.g. DCP increases in days it takes to collect AR, this indicates poor efficiency.

Students could provide recommendations to improve it as shown below:

Offer a discount for prompt or early payment this will encourage debtors to pay no later than the due date; charge interest on overdue accounts/ late fees; maintain a record of overdue debts ('ageing the debtors'); make personal contact with debtor; have a set order of reminders to pay increasing in seriousness; always refer unpaid debts to a collection agency, be vigilant, send out reminders....

Item D f)

Economic:

Economic should relate to the wider community e.g. business could use savings gained to invest in new technologies, employ more staff, purchase more such as new equipment, vehicles, stimulate other businesses, pay staff more which will give them increased income to spend in the economy.

Environmental:

Reduces emissions from vehicle if taken to work, otherwise emissions from alternative transport.